

Message Text

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64

ACTION TRSE-00

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E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: BANK OF ENGLAND LETTER TO CONSORTIUM BANKS

REF LONDON 12392

1. FOLLOWING IS TEXT (SUBSTANTIVE SECTIONS) OF BANK OF ENGLAND (BOE) LETTER FROM GEORGE BLUNDEN, HEAD OF SUPERVISORY DIVISION TO CONSORTIUM BANKS.

QUOTE IN THE CONTEXT OF BANKING SUPERVISION WE HAVE RECENTLY BEEN REVIEWING THE POSITION OF CONSORTIUM BANKS LIKE YOURS WHICH ARE REGISTERED IN THIS COUNTRY, BUT WHOSE SHAREHOLDING BANKS COME FROM A NUMBER OF DIFFERENT COUNTRIES. WE CONSIDER THAT THE SHAREHOLDERS MUST ACCEPT FULL RESPONSIBILITY FOR SUCH BANKS AND MUST STAND BEHIND THEM AT ALL TIMES. WE THINK THAT, WHENEVER A CONSORTIUM BANK HAS BEEN ESTABLISHED HERE, THAT POSITION HAS BEEN MADE CLEAR TO, AND GENERALLY ACCEPTED BY, THE BANKS INVOLVED; BUT WE NOW CONSIDER THAT IT SHOULD BE EXPLICITLY RECORDED.

QUOTE WE SHOULD, THEREFORE, WELCOME YOUR OBTAINING
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FOR US FROM YOUR SHAREHOLDING BANKS STATEMENTS THAT THEY

ACCEPT ULTIMATE RESPONSIBILITY FOR YOUR BANK. IN SOME CASES WE UNDERSTAND THAT THE PRACTICAL EFFECT OF SUCH RESPONSIBILITY IS ALREADY ACHIEVED BY THE SHAREHOLDING BANKS PROVIDING STANDBY FACILITIES; SHOULD THIS APPLY TO YOUR BANK, WE SHOULD LIKE SUCH STANDBYS, AND ANY SUBSEQUENT CHANGES IN THEM, TO BE FORMALLY NOTIFIED TO US. UNQUOTE.

2. FINAL PARAGRAPH OF LETTER CONCLUDES THAT BANK OF ENGLAND WOULD WELCOME DISCUSSION OF ITS REQUEST WITH THE CONSORTIUM BANK TO WHICH LETTER ADDRESSED.

3. COMMENT: BANK OF ENGLAND (BOE) OFFICIAL IN BLUNDEN'S DIVISION WITH WHOM WE DISCUSSED LETTER MINIMIZED ITS IMMEDIATE IMPORTANCE, STRESSED IT WAS FORMALIZING AN UNDERSTANDING THAT BANK THOUGHT ALREADY EXISTED. HOWEVER, MARKET SOURCES HERE REPORT THAT IN RECENT MONTHS SOME CONSORTIUM BANKS HAVE BEEN BYPASSED BY CUSTOMERS, INCLUDING DEPOSITORS SEEKING TO DEAL WITH THEIR INDIVIDUAL PARENTS; THAT MANAGEMENT OF SOME CONSORTIUM BANKS HAS NOT BEEN AS GOOD AS MIGHT HAVE BEEN EXPECTED, ESPECIALLY ON TREASURY/MONEY MANAGEMENT SIDE, THEY NOTE THAT INCOME, ESPECIALLY FROM EUROBOND BUSINESS, HAS CONTRACTED AND THAT OVERHEADS, FANCY OFFICES AND HIGH-PAID STAFF ARE BOUND TO BRING SOME MOMENTS OF TRUTH. MOST OBVIOUS MANIFESTATION CAME ON SEPTEMBER 12, WHEN WESTERN AMERICA BANK MADE SUBSTANTIAL AND HIGHLY PUBLICIZED STAFF REDUCTIONS, INCLUDING REPORTED DEPARTURE OF FIVE MANAGING DIRECTORS, AS RESULT OF DECLINE IN MAGNITUDE OF EUROMARKET BUSINESS ACTIVITIES AND SOME ALLEGED LOSSES. IN WESTERN AMERICA'S CASE, US, UK, AND JAPANESE SHAREHOLDERS (HAMBROS, BANK OF TOKYO, NB DETROIT, SECURITY PACIFIC, NB LOS ANGELES AND WELLS FARGO) STOOD FULLY BEHIND THE INSTITUTION. THERE WERE RUMORS OF TEMPORARY DIFFICULTIES BUT APPARENTLY NEVER ANY MORE SERIOUS FEARS. ALL THIS SAID, MARKET CONSIDERS BOE CONSIDERED TIME HAD COME TO NAIL DOWN PARENT SHAREHOLDERS RESPONSIBILITY.

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